

**CHATTANOOGA METROPOLITAN
AIRPORT AUTHORITY**

FINANCIAL STATEMENTS

June 30, 2013

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

CONTENTS

LETTER FROM THE PRESIDENT	1
INDEPENDENT AUDITOR'S REPORT	2/3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4/7
STATEMENTS OF NET POSITION	8
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	9/10
STATEMENTS OF CASH FLOWS	11/12
NOTES TO FINANCIAL STATEMENTS	13/24

SUPPLEMENTARY INFORMATION

Independent Auditor's Report on Schedules of Expenditures of Federal and State Awards	26
Schedule of Expenditures of Federal Awards	27
Schedule of Expenditures of State Awards	28
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Compliance and on Internal Control Over Compliance with the Passenger Facility Charge Program and on the Schedule of Passenger Facility Charges, Investment Income and Related Expenditures	29/30
Schedule of Passenger Facility Charges, Investment Income and Related Expenditures	31
Schedule of Findings and Questioned Costs - Passenger Facility Charge Program	32
Schedule of Actual to Budget Comparison	33/34

INTERNAL CONTROL AND COMPLIANCE REPORTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36/37
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	38/39
Schedule of Findings and Questioned Costs	40/41



1001 Airport Road, Suite 14
Chattanooga, TN 37421
P 423.855.2200
F 423.855.2212

Daniel R. Jacobson, *Chairman*
James E. Hall, *Vice Chairman*
Lynda Griffin
Travis Lytle
Michael Mallen
Bob McKamey
Farzana Mitchell
Tom Snow
Gene Veazey

Terry Hart, *President*

A Letter from the President

Fiscal Year 2013 proved to be a year of growth for the Chattanooga Airport. With every area of our operations including commercial, general aviation and cargo showing positive trends, we believe that the airport has positioned itself to capitalize on the growth of the community and we are optimistic in our ability to carry this forward into FY 2014. We plan to accomplish this by keeping our focus on the long term strategy identified by the Board and the core principles that will ensure we achieve those goals. First and foremost, it is critical that we provide a safe and secure environment for all operators and customers at our airport. Secondly, we must create a positive experience for every customer who uses our facilities and services. Finally, we will keep our focus on maintaining a strong long term financial position.

In regards to our financial position, I am very pleased that we have been able to once again capitalize on the various funding sources that are available to us to increase our assets while growing our cash balances. Our goal for the last 10 years was to maintain a strong financial position and we have successfully increased our unrestricted cash balance from \$920,000 in 2003 to more than \$11 million today. During that same ten year period, our total assets have increased by more than \$62 million. Our tireless efforts to reduce costs, identify additional sources of revenue, and utilize all available funding sources have been instrumental in accomplishing this goal.

A more recent goal that we have initiated is that of sustainability and reducing our environmental footprint. Several projects have been undertaken in this endeavor and include development of the west side FBO terminal and hangars to LEED Standards and the development of a 2.1 megawatt solar farm. Many of these projects have garnered recognition including the Governor's Environmental Stewardship Award for Excellence in Sustainable Performance while providing additional sources of revenue to the airport.

The Chattanooga Airport is aware of the many challenges that lie ahead but also the tremendous opportunities that exist. We look forward to working with our community and its leaders to ensure that the Chattanooga Airport maximizes those opportunities in order to prepare for future growth.

Terry L. Hart, ACE
President & CEO

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Chattanooga Metropolitan Airport Authority
Chattanooga, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Chattanooga Metropolitan Airport Authority (the Authority), a component unit of the City of Chattanooga, Tennessee as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

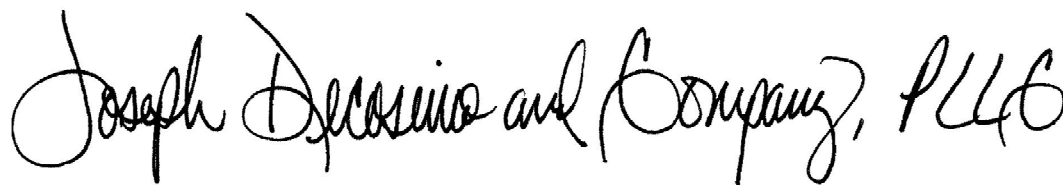
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of actual to budget comparison on pages 33 through 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of actual to budget comparison has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Joseph DeCarino and Company, PLLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee
October 22, 2013

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2013

The Comprehensive Annual Financial Report of the Chattanooga Metropolitan Airport Authority ("the Authority") for the fiscal year ended June 30, 2013, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Finance Department of the Authority. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The Airport Authority

The Authority was established pursuant to the Metropolitan Airport Authority Act of Tennessee and all amendments thereto. The major purposes of the Authority are to plan, establish, acquire, construct, improve and operate an airport within Hamilton County. The Authority has the power to issue bonds to accomplish any of the purposes authorized by the Metropolitan Airport Authority Act of Tennessee. All bonds shall be payable solely from the revenues, income and charges of the Authority and such bonds shall only constitute an obligation of the City of Chattanooga ("the City") or Hamilton County in the event of default by the Authority.

The Mayor of the City appoints all members of a nine-member Board of Commissioners to govern the Authority. The Board appoints the President who is the Chief Executive Officer of the Authority. The President appoints the remaining officers with Board confirmation. These officers manage and operate the airport with a staff of both permanent and temporary employees.

Based on the financial accountability the City has over the Authority, the Authority is considered a component unit of the City under the criteria set forth by the Governmental Accounting Standards Board (GASB).

Airport Activity & Highlights

The Chattanooga Metropolitan Airport saw passenger enplanements of 307,162 during calendar year 2012 which is 1% above calendar year 2011. Aircraft operations and landed weights are on a positive trend increasing 9% and 13% over previous year's statistics. Mail and freight cargo operations continue to increase positively with FedEx in the market supporting local economic development in the community. In calendar year 2012, total cargo increased 125% over calendar year 2011 statistics and we expect continued growth in this area as our community continues to expand.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2013

	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
Enplanements	307,162	304,016	291,388
% Increase (Decrease)	1.0 %	4.0 %	(6.0)%
Aircraft Operations	57,877	53,341	54,952
% Increase (Decrease)	9.0 %	(3.0)%	(3.0)%
Landed Weight	428,621	377,976	389,722
% Increase (Decrease)	13.0 %	(3.0)%	(1.0)%
Mail/Freight Cargo (lbs.)	15,669,988	6,973,213	4,170,879
% Increase (Decrease)	125.0 %	67.0 %	(1.0)%

Summary of Operations Highlights

Highlights of 2012-2013 fiscal year actual vs. 2011-2012 fiscal year actual and budget

Revenues

Operating revenues were \$10,115,038 for FY 2013, up 5% over the previous year. Landing fees continue to increase because of equipment changes initiated by the carriers. Once again, additional revenue resulted from parking operations due to overall growth in the market. This revenue source continues to be our largest single source of revenue and is forecasted to continue to grow for FY 2014. On the airfield, fuel fees realized growth of 1% which reflects the effects of a competitive environment on the airfield. Our newest source of revenue revealed an increase due to the fact that the solar array was online for the entire fiscal year. For FY 2014, we are anticipating to double that revenue with the addition of a second solar array. Finally, the FBO also experienced an increase in revenues over the previous year as business continues to grow.

Comparison of actual revenues for selected revenue accounts is as follows:

Operating Revenues (in thousands)	FY 2013 Actual	FY 2012 Actual	Variance	FY 2013 Budget
Landing fees	\$ 892	\$ 847	5 %	\$ 860
Terminal rents	\$ 533	\$ 537	(1)%	\$ 533
Parking operation	\$ 2,855	\$ 2,755	4 %	\$ 2,813
Rental car	\$ 1,408	\$ 1,451	(3)%	\$ 1,512
Fuel sales	\$ 295	\$ 292	1 %	\$ 296
Solar	\$ 96	\$ 47	104 %	\$ 100
Fixed based operator	\$ 1,940	\$ 1,465	32 %	\$ 1,997

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2013

Expenses

Operating expenses were \$7,750,897 for FY 2013. During the year, CMAA was able to realize significant savings in contractual services and advertising due to a reduction in consulting services as well as reallocation of advertising dollars to ensure that we are utilizing those funds in the most effective way. On the other side, CMAA encountered a series of unexpected expenses associated with maintenance of the facility and equipment. We are expecting those types of expenses to diminish with the purchase of two new airport maintenance vehicles and the terminal renovation that is currently underway. CMAA also realized greater expenses in FY 2013 at the fixed based operation on the field due to increased operations.

Operating Expenses (in thousands)	FY 2013 Actual	FY 2012 Actual	Variance	FY 2013 Budget
Personnel services	\$ 3,054	\$ 2,977	3 %	\$ 3,369
Contractual services	\$ 188	\$ 321	(41)%	\$ 456
Repairs and maintenance	\$ 455	\$ 372	22 %	\$ 371
Promotion	\$ 292	\$ 328	(11)%	\$ 416
Fixed base operations	\$ 2,446	\$ 2,126	15 %	\$ 3,733

Assets and Liabilities

Total assets of the Authority increased by \$11,990,556 during the year ended June 30, 2013, to a total of \$113,617,768. The majority of the increase came from additional property and equipment which grew by \$6,576,058 and was primarily realized through the assistance of the Federal Airport Improvement Program and assistance from the State of Tennessee.

The Authority's long-term debt for FY 2013 was reduced to \$4,855,272 after satisfying the current year's fixed rate debt requirement of \$394,599.

Statement of Net Position

Assets (in thousands)	June 30, 2013	June 30, 2012
Cash and cash equivalents - restricted and unrestricted	\$ 15,374	\$ 12,826
Receivables	\$ 4,989	\$ 2,274
Property and equipment, net	\$ 92,740	\$ 86,164
Total assets	\$ 113,618	\$ 101,627
Long-term debt	\$ 4,959	\$ 5,390
Total net position	\$ 102,993	\$ 94,642

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2013

Capital Acquisitions and Construction Activities

Current Projects

Terminal Renovation

In March 2013, CMAA approved a contract to renovate the terminal building at a cost of approximately \$7.2 million. The scope of the project includes, but is not limited to, a complete restroom renovation, replacement of the escalators, new flooring, and a complete redesign of the concession areas. The project is scheduled for completion in early 2014.

Brainerd Road Properties

With the support of an Airport Improvement Project grant, CMAA purchased the property at 5915 Brainerd Road and 5949 Brainerd Road. The buildings located on each site have been demolished and the property is being developed as part of the Brainerd/Midtown Greenspace Initiative.

Completed Projects

Renewable Energy

The project was for development of the second phase of a solar farm on the airport. Phase II included installation of an additional 1.1 megawatt which was added to the existing 1.0 megawatt solar farm. The project was completed in June 2013.

Pre-Conditioned Air / Ground Power Units (PCA/GPU)

The project included installation of PCA/GPU on all five airline gates plus additional remote locations around the commercial terminal. The project was implemented to accomplish four goals:

- Improve the customer experience
- Reduce emissions from aircraft on the gate and remote parking spots
- Reduce airline fuel costs
- Provide the airport with Airport Emission Reduction Credits (AERC)

The project was completed in June 2013.

West Corporate Development – Phase II

The project was the second phase of the west side development and included an additional hangar and office and auxiliary space. The project was completed on September 20, 2013.

East Public Cargo Ramp

The project was for the design of Phase I and II and construction of Phase I of the East Public Cargo Ramp Expansion which is necessary to support increased air cargo activity at the airport. Phase I expanded the ramp approximately 50 feet to the south and 90 feet to the east. The project was completed in August 2013.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,564,741	\$ 8,831,558
Receivables	4,786,886	2,019,936
Prepayments	367,599	273,745
Inventory	129,011	69,907
Total current assets	<u>16,848,237</u>	<u>11,195,146</u>
RESTRICTED ASSETS		
Cash and cash equivalents	3,809,411	3,993,654
Passenger facility charges receivable	157,206	190,392
Customer facility charges receivable	45,360	63,568
Total restricted assets	<u>4,011,977</u>	<u>4,247,614</u>
PROPERTY AND EQUIPMENT, net	<u>92,740,065</u>	<u>86,164,007</u>
OTHER ASSETS		
Bond issuance costs - less accumulated amortization of \$12,069 for 2013 and \$9,113 for 2012	<u>17,489</u>	<u>20,445</u>
TOTAL ASSETS	<u>\$ 113,617,768</u>	<u>\$ 101,627,212</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 394,599	\$ 380,707
Current portion of capital lease obligations	46,661	46,661
Accounts payable and accrued expenses	1,529,984	852,054
Contracts payable	3,532,681	138,948
Deferred revenue	14,251	30,432
Total current liabilities	<u>5,518,176</u>	<u>1,448,802</u>
LONG-TERM LIABILITIES		
Long-term debt	4,855,272	5,249,868
Capital lease obligations	104,349	139,982
Total long-term liabilities	<u>4,959,621</u>	<u>5,389,850</u>
UNFUNDED OTHER POST-EMPLOYMENT BENEFIT LIABILITY	<u>146,811</u>	<u>146,811</u>
NET POSITION		
Invested in capital assets, net of related debt	87,339,184	80,346,789
Restricted for debt service and construction	4,011,977	4,247,614
Unrestricted	11,641,999	10,047,346
Total net position	<u>102,993,160</u>	<u>94,641,749</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 113,617,768</u>	<u>\$ 101,627,212</u>

The accompanying notes are an integral part of the financial statements.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012

	2013	2012
AIRLINE REVENUES		
Landing fees	\$ 892,347	\$ 846,818
Terminal rental fees	533,255	537,804
Baggage fees	343,279	340,639
Loading bridge fees	70,833	68,117
Security and janitorial	337,876	333,625
Ground handling fees	<u>63,338</u>	<u>53,633</u>
	<u>2,240,928</u>	<u>2,180,636</u>
NONAIRLINE REVENUES		
Hangar rental	571,350	546,442
Fuel sales	294,582	291,579
Parking	2,855,794	2,755,356
Rental car	1,407,770	1,450,889
Diversions, charters and GSE	55,441	92,608
Advertising	121,650	146,663
TSA reimbursements	208,406	240,092
Tenant rent	80,341	78,380
Airfield revenues	27,744	43,614
Solar revenues	96,133	46,811
Other terminal revenues	189,077	185,190
Gain on disposal of property and equipment	247	2,284
Other	26,071	117,250
Fixed base operations	<u>1,939,504</u>	<u>1,465,457</u>
	<u>7,874,110</u>	<u>7,462,615</u>
 Total operating revenues	 <u>10,115,038</u>	 <u>9,643,251</u>
OPERATING EXPENSES		
Personnel services	3,053,993	2,976,997
Contractual services	188,315	321,105
Utilities and telephone	426,794	436,433
Insurance	292,799	299,270
Repairs and maintenance	455,012	371,967
Office and administrative	20,386	25,622
Promotion	291,977	328,148
Miscellaneous	109,265	97,152
Fuel	43,671	41,035
Rental equipment expense	46,759	8,468
Bad debt expense	15,114	3,811
Amortization	2,956	2,956
Ground handling	108,186	111,673
Parking - management fees	32,409	31,048
Parking - expenses	217,062	215,038
Fixed base operations	<u>2,446,199</u>	<u>2,125,840</u>
Total operating expenses	<u>7,750,897</u>	<u>7,396,563</u>

The accompanying notes are an integral part of the financial statements.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2013 and 2012

	2013	2012
OPERATING INCOME BEFORE DEPRECIATION	\$ 2,364,141	\$ 2,246,688
Depreciation	<u>(5,096,727)</u>	<u>(4,122,899)</u>
OPERATING LOSS	<u>(2,732,586)</u>	<u>(1,876,211)</u>
NONOPERATING REVENUE (EXPENSE)		
Interest income	66,576	16,561
Interest expense	<u>(202,459)</u>	<u>(309,234)</u>
	<u>(135,883)</u>	<u>(292,673)</u>
LOSS BEFORE OTHER REVENUES	<u>(2,868,469)</u>	<u>(2,168,884)</u>
OTHER REVENUES		
Capital grants	9,508,125	9,037,489
Revenue from passenger facility charges	1,200,927	1,290,835
Revenue from customer facility charges	<u>510,828</u>	<u>540,084</u>
	<u>11,219,880</u>	<u>10,868,408</u>
INCREASE IN NET POSITION	8,351,411	8,699,524
NET POSITION - beginning of year	<u>94,641,749</u>	<u>85,942,225</u>
NET POSITION - end of year	<u>\$ 102,993,160</u>	<u>\$ 94,641,749</u>

The accompanying notes are an integral part of the financial statements.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2013 and 2012

	2013	2012
OPERATING ACTIVITIES		
Cash received from customers	\$ 10,104,052	\$ 9,500,198
Cash paid to suppliers	(4,205,175)	(4,907,931)
Cash paid to employees	<u>(3,001,557)</u>	<u>(3,000,245)</u>
Net cash flows from operating activities	<u>2,897,320</u>	<u>1,592,022</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(8,278,805)	(10,872,739)
Payments on capital lease obligations	(35,633)	-
Repayment of long-term debt	(380,704)	(325,414)
Interest paid	(203,582)	(319,474)
Capital grants	6,720,619	10,378,848
Customer facility charges collected	529,036	513,056
Passenger facility charges collected	<u>1,234,113</u>	<u>1,298,894</u>
Net cash flows from capital and related financing activities	<u>(414,956)</u>	<u>673,171</u>
INVESTING ACTIVITIES		
Interest received	<u>66,576</u>	<u>16,561</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,548,940	2,281,754
CASH AND CASH EQUIVALENTS - beginning of year	<u>12,825,212</u>	<u>10,543,458</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 15,374,152</u>	<u>\$ 12,825,212</u>
CASH AND CASH EQUIVALENTS - END OF YEAR CONSISTS OF -		
Unrestricted cash and cash equivalents	\$ 11,564,741	\$ 8,831,558
Restricted cash and cash equivalents	<u>3,809,411</u>	<u>3,993,654</u>
	<u>\$ 15,374,152</u>	<u>\$ 12,825,212</u>

The accompanying notes are an integral part of the financial statements.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2013 and 2012

	2013	2012
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (2,732,586)	\$ (1,876,211)
Depreciation	5,096,727	4,122,899
Amortization	2,956	2,956
Gain on disposal of property and equipment	(247)	(2,284)
Bad debt expense	15,114	3,811
Changes in operating assets and liabilities -		
Trade receivables	5,442	(144,921)
Inventory	(59,104)	(69,907)
Prepayments	(93,854)	(168,850)
Accounts payable and accrued expenses	679,053	(279,623)
Deferred revenue	<u>(16,181)</u>	<u>4,152</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ <u>2,897,320</u>	\$ <u>1,592,022</u>
 SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES		
Additions to property and equipment included in contracts payable	\$ 3,532,681	\$ 138,948
Additions to property and equipment included in capital lease obligations	\$ -	\$ 186,643

The accompanying notes are an integral part of the financial statements.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and practices followed by the Authority are as follows:

REPORTING ENTITY - Chattanooga Metropolitan Airport Authority is a metropolitan airport authority created May 29, 1985, pursuant to the provisions of the Metropolitan Airport Authority Act, Tennessee Code Annotated, Section 42-4-101 et seq., as amended (the Act). The Authority is a public and governmental body acting as an agency of the City of Chattanooga, Tennessee. The principal purpose of the Authority is the management and operation of the Chattanooga Metropolitan Airport (the Airport). The Authority is empowered under the Act to construct, improve and operate airports and to establish and charge fees, rentals, rates and other charges. Further, the Authority is authorized to issue revenue bonds for the purposes authorized by the Act. The Authority owns and operates the Airport.

The Authority is a component unit of the City of Chattanooga, Tennessee, due to the control it exercises over the appointments of the Authority's Board of Commissioners. The City of Chattanooga is also secondarily responsible for the retirement of the Authority's revenue bonds. There are no governmental units that would qualify as a component unit of the Authority.

The accounting policies of the Authority conform to the generally accepted accounting principles applicable to governmental entities. The more significant accounting policies of the Authority are summarized as follows:

BASIS OF ACCOUNTING - The financial statements of the Authority have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when they are incurred.

In accordance with generally accepted accounting principles, the Authority has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The Authority prepares its financial statements according to the governmental standards for external financial reporting and disclosure for state and local governmental entities, which include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Net position is required to be classified into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of net position that does not meet the definition of restricted or invested in capital assets, net of related debt.

BUDGETS - The Authority has established the following formal budget procedures:

The President prepares an Annual Operating Budget and an annual Capital Improvements Budget for approval by the Board of Commissioners.

The Annual Operating Budget is submitted to the Board of Commissioners for approval prior to June 30.

The Capital Investments Budget is submitted to the Board of Commissioners for approval prior to June 30.

CASH AND CASH EQUIVALENTS - The Authority considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Authority maintains cash and cash equivalent accounts with First Tennessee Bank which are at times in excess of federally insured amounts and which may at times significantly exceed statement of net asset amounts due to outstanding checks. The financial institutions are members of the Tennessee State Collateral Pool.

TRADE RECEIVABLES - The Authority performs ongoing credit evaluations of its customers' financial condition but does not require collateral to support trade receivables. The Authority evaluates the need for an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. All accounts or portions thereof considered uncollectible or to require excessive collection costs are written off to the allowance for doubtful accounts.

GRANTS RECEIVABLE - Grants receivable are due from governmental agencies under the terms of the grant agreements and are recognized as the related costs are incurred. Grants receivable are accounted for in accordance with the governmental accounting standards for *Accounting and Financial Reporting for Nonexchange Transactions*, which requires that nonexchange transactions and exchange-like transactions be recognized as revenue. Amounts earned from capital grants have been classified as other revenues.

INVENTORY - Inventory consists of fuel and is stated at the lower of cost or market. Cost is determined on the first-in, first-out method.

RESTRICTED ASSETS - Restricted assets consist of cash and cash equivalents, passenger facility and customer facility charges receivable. These assets are to be used for projects as specified by regulatory agencies. The policy of the Authority is to expend restricted assets when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BOND ISSUANCE COSTS - Bond issuance costs associated with the issuance of the Series 2009 Taxable Revenue Refunding Bonds and Series 2002 Revenue Refunding Bonds are stated at unamortized cost and are being amortized over the life of the bonds using the straight-line method. Amortization expense totaled \$2,956 for 2013 and 2012 and is estimated to be \$2,956 for 2014 through 2019.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost or estimated historical cost less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Upon the sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is reflected in operations.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

Airport improvements	5-40 years
Buildings	30-40 years
Land improvements	2-30 years
Maintenance equipment	2-25 years
Airport equipment	2-25 years
Vehicles	2-25 years
Furniture and fixtures	2-10 years

COMPENSATED ABSENCES - Accumulated unpaid personal leave compensation is accrued when incurred. As of June 30, 2013 and 2012, the Authority had liabilities of \$512,485 and \$465,371, respectively, for accumulated compensated absences. The liability is classified within accounts payable and accrued expenses on the statements of net position.

INCOME TAXES - The Chattanooga Metropolitan Airport Authority is exempt from payment of federal and state income, property and certain other taxes.

PASSENGER FACILITY CHARGES - Passenger facility charges (PFCs) have been approved by the Federal Aviation Administration for collection. Revenue from PFCs is recognized in the year it is earned. Expenditures are recognized when incurred.

CUSTOMER FACILITY CHARGES - The proceeds from customer facility charges (CFCs) will be used to defray the cost of improvements relating to car rental activities. Revenue from CFCs is recognized in the year it is earned. Expenditures are recognized when incurred.

ESTIMATES AND UNCERTAINTIES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

RISK MANAGEMENT - The Authority purchases commercial insurance coverage for claims arising out of bodily injury or property damage as well as property insurance on airport properties, which includes earthquake and flood coverage. The Authority is a member of the City of Chattanooga health insurance program. Effective July 1, 2007, the health insurance program of the City of Chattanooga became a self-insured plan. The plan is administered by Blue Cross Blue Shield of Tennessee. The City's insurance fund charges the Authority premiums which are used to pay claims and to fund the accrual for "incurred but not reported" claims and administrative costs of its health and medical benefits program.

REVENUES - Operating revenues are recognized as they are earned. Landing fees, rental fees and other charges are established by the Board of Commissioners. Nonoperating revenues include grants received from the Federal Aviation Administration and the State of Tennessee for approved airport improvement projects. Nonoperating revenues also include amounts received as Passenger and Customer Facility Charges. Grant revenues are recognized when funds are expended.

DEFERRED REVENUE - Deferred revenue consists of rental and advertising receipts that are recognized over the life of the agreements.

SUBSEQUENT EVENTS - The Authority has evaluated subsequent events for potential recognition and disclosure through October 22, 2013, the date the financial statements were available to be issued, as disclosed in Note 16.

NOTE 2 - ACCOUNTING PRONOUNCEMENTS

The Authority adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB And AICPA Pronouncements*, as of July 1, 2012. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance, included in certain FASB and AICPA pronouncements issued prior to November 30, 1989, which does not conflict with or contradict GASB pronouncements.

The Authority adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Responses, Deferred Inflows of Resources and Net Position*, as of July 1, 2012. This statement provides financial reporting guidance for deferred outflows and deferred inflows of resources, and identifies net position as the residual of all other elements presented in a statement of financial position.

GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. This statement provides guidance on financial reporting of deferred outflows of resources and deferred inflows of resources. GASB Statement 65 is effective for fiscal years beginning after December 15, 2012. Management is in the process of determining the effects that the adoption of this statement will have on the Authority's financial statements.

GASB Statement 67, *Financial Reporting for Pension Plans* and GASB Statement 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, provides guidance to improve accounting and financial reporting by state and local governments for pensions. GASB Statement 67 is effective for fiscal years beginning after June 15, 2013, and GASB Statement 68 is effective for fiscal years beginning after June 15, 2014. As the Authority is a component unit of the City of Chattanooga, management is in the process of determining the effects that the adoption of these statements will have on the Authority's financial statements.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS AND INVESTMENT RISKS

Investment risks are as follows:

Interest Rate Risk - The Authority presents its exposure to interest rate changes using the weighted average maturity method. The Authority's investment portfolio did not experience any significant fluctuations in fair value during the year.

Custodial Credit Risk - The Authority's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 100% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Authority's agent in the Authority's name or by the Federal Reserve Banks acting as third-party agents. State statutes also authorize the Authority to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

NOTE 4 - RECEIVABLES

Receivables consist of the following:

	2013	2012
Trade receivables	\$ 734,981	\$ 755,537
Allowance for doubtful accounts	<u>(25,000)</u>	<u>(25,000)</u>
	709,981	730,537
Grants receivable	<u>4,076,905</u>	<u>1,289,399</u>
	<u>\$ 4,786,886</u>	<u>\$ 2,019,936</u>

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - PROPERTY AND EQUIPMENT

A summary of the changes in property and equipment is as follows:

	June 30, 2012	Additions	Deletions	Reclassifications	June 30, 2013
Property and equipment not being depreciated					
Land	\$ 3,843,561	\$ -	\$ -	\$ -	\$ 3,843,561
Construction in progress	<u>22,661,698</u>	<u>10,729,898</u>	<u>-</u>	<u>145,777</u>	<u>33,537,373</u>
Total property and equipment not being depreciated	<u>26,505,259</u>	<u>10,729,898</u>	<u>-</u>	<u>145,777</u>	<u>37,380,934</u>
Property and equipment being depreciated					
Land improvements	741,519	-	-	-	741,519
Airport improvements	61,591,311	381,992	(296,196)	-	61,677,107
Buildings	32,564,894	389,501	(223,301)	-	32,731,094
Maintenance equipment	291,770	-	(20,289)	-	271,481
Airport equipment	5,555,554	131,268	(165,050)	(145,777)	5,375,995
Vehicles	1,473,718	40,126	(26,965)	-	1,486,879
Furniture and fixtures	<u>523,199</u>	<u>-</u>	<u>(109,690)</u>	<u>-</u>	<u>413,509</u>
Total property and equipment being depreciated	<u>102,741,965</u>	<u>942,887</u>	<u>(841,491)</u>	<u>(145,777)</u>	<u>102,697,584</u>
Total property and equipment	<u>129,247,224</u>	<u>11,672,785</u>	<u>(841,491)</u>	<u>-</u>	<u>140,078,518</u>
Accumulated depreciation					
Land improvements	(541,325)	(27,814)	-	-	(569,139)
Airport improvements	(26,031,522)	(3,894,930)	298,937	-	(29,627,515)
Buildings	(13,554,412)	(1,053,311)	223,301	-	(14,384,422)
Maintenance equipment	(203,462)	(17,182)	20,289	-	(200,355)
Airport equipment	(1,123,414)	(57,487)	165,051	-	(1,015,850)
Vehicles	(1,192,340)	(45,437)	26,966	-	(1,210,811)
Furniture and fixtures	<u>(436,742)</u>	<u>(566)</u>	<u>106,947</u>	<u>-</u>	<u>(330,361)</u>
Total accumulated depreciation	<u>(43,083,217)</u>	<u>(5,096,727)</u>	<u>841,491</u>	<u>-</u>	<u>(47,338,453)</u>
PROPERTY AND EQUIPMENT, net	<u>\$ 86,164,007</u>	<u>\$ 6,576,058</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,740,065</u>

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT

A summary of the changes in long-term debt is as follows:

	June 30, 2012	Additions	Retirements	June 30, 2013	Current Portion
Series 2009 Taxable Revenue Refunding Bonds	\$ <u>5,630,575</u>	\$ <u>-</u>	\$ <u>380,704</u>	\$ <u>5,249,871</u>	\$ <u>394,599</u>

Long-term debt consists of the following:

	2013	2012
Series 2009 Taxable Revenue Refunding Bonds - \$6,600,000 bonds due in monthly installments of \$48,049 including interest at 3.54% beginning June 1, 2009 through April 1, 2019, when the remaining principal and unpaid interest are due.	\$ <u>5,249,871</u>	\$ <u>5,630,575</u>
Less current portion	\$ <u>394,599</u> \$ <u>4,855,272</u>	\$ <u>380,707</u> \$ <u>5,249,868</u>

Debt service requirements for the years subsequent to June 30, 2013, are as follows:

	Long-Term Debt	
	Principal	Interest
Year ending		
June 30, 2014	\$ 394,599	\$ 181,994
June 30, 2015	408,997	167,595
June 30, 2016	423,920	152,672
June 30, 2017	439,388	137,207
June 30, 2018	455,420	121,172
June 30, 2019	<u>3,127,547</u>	<u>88,269</u>
	\$ <u>5,249,871</u>	\$ <u>848,909</u>

On May 21, 2009, the Authority refunded the Series 2002 Variable Rate Demand Revenue and Refunding Bonds with the issuance of the Series 2009 Taxable Revenue Refunding Bond valued at \$6,600,000.

The Series 2009 Bond is collateralized by the Net Revenues and all other property in which security interests or liens are now or hereafter granted as specified in the Loan and Purchase Agreement, the Pledge Agreement and the Assignment. The Bond is further collateralized by the payments derived through an Airport Operation Service Contract with the City of Chattanooga. Under the service contract, if there is an anticipated shortfall, the City is obligated to make the monthly principal and interest payments to the Bank. In the event that the Authority has not repaid the City for shortfall payments made during the term of the service contract, the obligation from these payments shall survive termination of the service contract.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT - continued

The term of the service contract is the same as the term of the Series 2009 Bond and requires the Authority to maintain a minimum balance of \$2,000,000.00 in support of the outstanding debt.

NOTE 7 - DEFINED BENEFIT RETIREMENT PLAN

The Authority participates in the City of Chattanooga Retirement System. Although the Authority is a separate entity, plan benefits have been allocated to employees of the Authority. Disclosures follow guidelines for cost-sharing, multiple employer public employee retirement systems. Employees of the Authority are provided benefits through the defined benefit General Pension Plan of the City of Chattanooga. The City of Chattanooga acts as trustee for these plans. The City issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the City of Chattanooga, Department of Finance, City Hall Annex, Chattanooga, Tennessee 37402.

The plan covers all full-time employees. Each participant is required to contribute 2% of earnings. The Authority's contributions to the pension plan are based on calculations made by the City of Chattanooga.

The plan provides retirement benefits of 2% of average earnings multiplied by years of credited service up to 20 years, plus 1% of average earnings multiplied by years of credited service in excess of 20 years.

The benefits payable to retirees are increased annually by a 3% cost-of-living increase. Future amendments to the plan provisions can be authorized by City Ordinance upon recommendation from the Board of Trustees of the General Pension Plan, a statement of impact from the actuary and a favorable opinion of the Office of Mayor.

The normal retirement date is the first day of the month following the participant's attainment of age 62. Benefits are reduced on a pro rata basis for early retirement. An employee otherwise vested shall be penalized 2.5% for each year of age less than 62. However, if the sum of the participant's age and years of credited service is at least eighty (80), there shall be no reduction in the immediate early retirement benefit.

The contribution rates were 13.65% and 12.95% as of June 30, 2013 and 2012, respectively.

The Authority recognizes the cost of these benefits as contributions are made, which totaled \$270,297 for 2013 and \$248,774 for 2012.

NOTE 8 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Authority provides health and medical benefits for retirees and their dependents under the provisions of the City of Chattanooga Retirement System, a cost-sharing, multiple employer defined benefit post-employment healthcare plan administered by the City of Chattanooga. The City issues a publicly available financial report that includes financial statements and required supplementary information for the City of Chattanooga. That report may be obtained by writing to the City of Chattanooga, Department of Finance, City Hall Annex, Chattanooga, Tennessee 37402.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - continued

The City of Chattanooga requires a contribution of participating employers and plan members to the City of Chattanooga Retirement System for post-retirement health and medical benefits. This contribution amount is established by the City on an annual basis based on the recommendation of the plan administrator. Currently, any participant who retired prior to January 1, 2001, is required to pay the same premium as active employees. Any participant retiring after January 1, 2001, is required to pay 1.5 times the premium paid by active employees.

The Authority's contributions to the City of Chattanooga Retirement System for post-retirement health and medical benefits for the years ended June 30, 2013 and 2012, totaled \$57,427 and \$60,734, respectively.

On July 1, 2010, the City of Chattanooga modified its post-retirement health insurance benefit. In order for an airport employee to maintain lifetime health insurance coverage through the City of Chattanooga, an employee must have 25 years of employment effective July 1, 2010, or be 62 years of age with 10 years of consecutive service effective July 1, 2010.

All other employees and subsequent hires meeting the following criteria shall be entitled to maintain health insurance coverage until Medicare eligible. The criteria requirement includes 25 years of employment, or age 62 with 10 years of consecutive service, or non job-related disability with a minimum of 10 years of service, or a job-related disability.

During the year ended June 30, 2010, the City of Chattanooga notified the Authority of a liability for prior year's unfunded cost in the amount of \$146,811. This amount has been reported as a long-term liability on the statements of net position.

NOTE 9 - MAJOR CUSTOMERS

Express Jet accounted for operating revenues as follows:

Year ended	Operating Revenues	Percent of Operating Revenues
June 30, 2013	\$ 956,748	9 %
June 30, 2012	\$ 930,969	10 %
June 30, 2011	\$ 770,947	10 %
June 30, 2010	\$ 629,479	11 %
June 30, 2009	\$ 539,192	9 %

NOTE 10 - OPERATING LEASES

The Authority's leasing operations consist principally of the leasing of land and buildings for parking, concessions and airfield facilities. These leases generally provide for fixed and contingent rentals based on the lessee's gross revenues and expire through 2032.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - OPERATING LEASES - continued

Future minimum rent receipts under noncancelable leases as of June 30, 2013, are as follows:

Year ending	
June 30, 2014	\$ 2,068,857
June 30, 2015	2,040,227
June 30, 2016	2,002,642
June 30, 2017	1,909,178
June 30, 2018	1,289,344
Later years	<u>3,616,421</u>
	<u>\$ 12,926,669</u>

Rental revenue totaled \$2,969,139 for 2013 and \$2,973,582 for 2012.

The Authority leases certain vehicles and equipment under noncancelable operating leases. Future minimum lease payments under these operating leases with initial or remaining lease terms in excess of one year as of June 30, 2013, are as follows:

Year ending	
June 30, 2014	\$ 85,650
June 30, 2015	82,164
June 30, 2016	79,362
June 30, 2017	<u>270</u>
	<u>\$ 247,446</u>

Rent expense totaled \$54,865 for 2013 and \$51,193 for 2012.

NOTE 11 - CAPITAL LEASES

Effective July 1, 2012, the Authority entered into a leasing arrangement for a fuel facility which is classified as a capital lease. Future minimum lease payments required under capital leases and the present value of the net minimum lease payments as of June 30, 2013, are as follows:

Year ending	
June 30, 2014	\$ 51,996
June 30, 2015	51,996
June 30, 2016	51,996
June 30, 2017	<u>8,666</u>
Total minimum lease payments	164,654
Less amount representing interest	<u>13,644</u>
	151,010
Less current portion	<u>46,661</u>
	<u>\$ 104,349</u>

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 12 - PASSENGER FACILITY CHARGES (PFC)

As of July 1, 1994, the Authority became eligible to collect PFCs. These are charges which are levied by the Authority on passengers enplaning at the Airport. These charges are revenues of the Authority but are collected by the Airport carriers and remitted to the Authority. These revenues are restricted in their use to certain approved Airport improvement projects. The Authority is authorized to impose PFCs until the date on which the total net PFC revenue collected plus investment income equals the allowable cost of the approved projects. The amount of the approved projects is \$21,665,798. Based on the operating information of the Authority, the estimated expiration date of the PFCs will be July 1, 2018.

The Authority recognized \$1,200,927 and \$1,290,835 in revenue from PFCs for the years ended June 30, 2013 and 2012, respectively. These amounts included investment income on PFC funds of \$16,020 and \$1,317 for the years ended June 30, 2013 and 2012, respectively. The PFCs receivable classified as restricted assets totaled \$157,206 and \$190,392 as of June 30, 2012 and 2012, respectively. The Authority made expenditures of \$1,949,498 and \$88,640 on approved PFC projects for the years ended June 30, 2013 and 2012, respectively.

NOTE 13 - CUSTOMER FACILITY CHARGES (CFC)

As of June 1, 2011, a CFC was imposed by the Authority in the amount of \$2.00 per contract day for on-site rental car companies (Operators). The charge is imposed upon each rental car contract entered into between each Operator and each Operator's customers for automobiles to be picked up from or delivered to the Operator at the Airport. The Authority shall use the proceeds from the CFCs to defray the cost of improvements relating to car rental activities.

The Authority recognized \$510,828 and \$540,084 in revenue from CFCs for the years ended June 30, 2013 and 2012, respectively. CFC receivables classified as restricted assets totaled \$45,360 and \$63,568 for the years ended June 30, 2013 and 2012, respectively.

NOTE 14 - FIXED BASED OPERATOR AGREEMENT

During the year ended June 30, 2011, the Authority constructed a facility on the airfield for a FBO. The FBO began operations in August 2011, and the facility is being operated by Wilson Air under a management contract with the Authority. The management contract specifies a fixed amount to be paid to Wilson Air plus an incentive fee. The incentive fee is based on operating performance benchmarks as specified in the management contract. The Authority also pays operating expenses for the FBO. The Authority paid Wilson Air a management fee of \$150,000 and \$100,000 for the years ended June 30, 2013 and 2012, respectively which is included in fixed base operations. Future amounts due to Wilson Air are as follows:

Year ending

June 30, 2014	\$	200,000
June 30, 2015	\$	200,000
June 30, 2016	\$	200,000

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 15 - COMMITMENTS AND CONTINGENCIES

The Authority has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agencies for expenditures disallowed under the terms of the grants. Authority management is not aware of any potential losses from such disallowances.

The Authority is subject to commitments, legal proceedings and claims which arise in the ordinary course of business. In management's opinion, the amount of any ultimate liability will not materially affect the operations or financial position of the Authority.

NOTE 16 - SUBSEQUENT EVENTS

Subsequent to June 30, 2013, First Tennessee Bank agreed to a reduction in the overall interest rate charged on the outstanding debt of \$5.2 million. This modification, which is expected to be approved in October 2013, would reduce the current fixed interest rate of 3.54% to 2.95%, effectively lowering the monthly installment payment due on the Bond from \$48,049 to \$46,662. This change will result in annual savings of \$16,651 to the Authority.

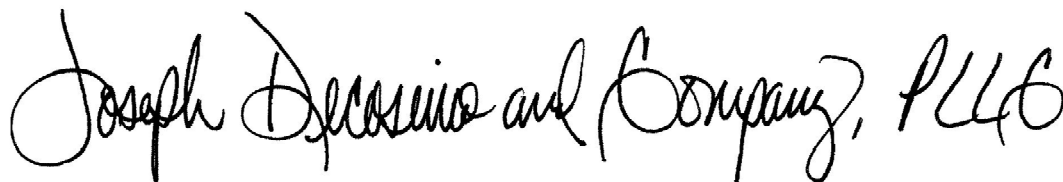
In July 2013, the Authority approved the buyout of the lease agreement with Airhost Chattanooga, Inc. effective October 1, 2013. The amount of the buyout was \$498,500 to be paid in two installments of \$249,250 on July 15, 2013, and October 1, 2013. After a public request for proposals for a new concession operator, the Authority selected Tailwind Concessions. The new agreement provides for reimbursement to the airport in the first year of our \$498,500 expenditure to AirHost, in addition to a concession fee equal to 10% of gross receipts paid monthly to the Authority. The agreement includes a transition period that will begin on October 1, 2013 and run through February 1, 2014 at which time the first five year agreement will begin.

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON
SCHEDULES OF EXPENDITURES OF FEDERAL AND
STATE AWARDS**

Board of Commissioners
Chattanooga Metropolitan Airport Authority
Chattanooga, Tennessee

We have audited the financial statements of Chattanooga Metropolitan Airport Authority (the Authority), as of and for the year ended June 30, 2013, and have issued our report thereon dated October 22, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the Authority's basic financial statements as a whole. The accompanying schedule of expenditures of federal awards and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state awards is fairly stated in all material respects in relation to the financial statements as a whole.



Chattanooga, Tennessee
October 22, 2013

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

CFDA Number	Grant Number	Program Name	Grantor Agency	Receivable Balance June 30, 2012	Federal Reimbursements	Federal Expenditures	Receivable Balance June 30, 2013
20.106	3-47-0009-44	Airport Improvement Project	Federal Aviation Administration	\$ 239,338	\$ 203,652	\$ (35,686)	\$ -
20.106	3-47-0009-48	Airport Improvement Project	Federal Aviation Administration	78,795	78,795	-	-
20.106	3-47-0009-49	Airport Improvement Project	Federal Aviation Administration	7,050	7,050	-	-
20.106	3-47-0009-52	Airport Improvement Project	Federal Aviation Administration	46,926	1,714	1,714	46,926
20.106	3-47-0009-53	Airport Improvement Project	Federal Aviation Administration	92,546	90,837	-	1,709
20.106	3-47-0009-54	Airport Improvement Project	Federal Aviation Administration	38,381	345,524	370,026	62,883
20.106	3-47-0009-55	Airport Improvement Project	Federal Aviation Administration	130,207	278,066	154,160	6,301
20.106	3-47-0009-56	Airport Improvement Project	Federal Aviation Administration	-	946,551	1,635,370	688,819
20.106	3-47-0009-57	Airport Improvement Project	Federal Aviation Administration	-	172,186	1,760,784	1,588,598
20.106	3-47-0009-58	Airport Improvement Project	Federal Aviation Administration	-	2,564,313	2,941,904	377,591
				<u>\$ 633,243</u>	<u>\$ 4,688,688</u>	<u>\$ 6,828,272</u>	<u>\$ 2,772,827</u>

Basis of Presentation - The schedule of expenditures of federal awards includes grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year Ended June 30, 2013

Project Number	Contract Number	Project Description	Grantor Agency	Receivable Balance June 30, 2012	State Reimbursements	State Expenditures	Receivable Balance June 30, 2013
33-555-1059-04	Z-09-21-3917-00	Airport Improvement Project	State of Tennessee	\$ 190,459	\$ -	\$ (61,550)	\$ 128,909
33-555-1064-04	Z-09-21-4023-00	Airport Improvement Project	State of Tennessee	13,842	13,842	-	-
33-555-1100-04	AERO-10-117-00	Airport Improvement Project	State of Tennessee	41,335	41,335	-	-
33-555-1101-04	AERO-10-118-00	Airport Improvement Project	State of Tennessee	1,708	1,708	-	-
33-555-1102-04	AERO-11-113-00	Airport Improvement Project	State of Tennessee	30,844	-	(30,844)	-
33-555-1066-04	Z-09-21-3973-00	Airport Improvement Project	State of Tennessee	272,768	238,963	-	33,805
33-555-1070-04	AERO-10-100-00	Airport Improvement Project	State of Tennessee	105,200	-	207	105,407
33-555-1703-04	AERO-10-188-00	Airport Improvement Project	State of Tennessee	<u>-</u>	<u>1,736,083</u>	<u>2,772,040</u>	<u>1,035,957</u>
				<u>\$ 656,156</u>	<u>\$ 2,031,931</u>	<u>\$ 2,679,853</u>	<u>\$ 1,304,078</u>

Basis of Presentation - The schedule of expenditures of state awards includes grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE WITH THE
PASSENGER FACILITY CHARGE PROGRAM AND ON THE SCHEDULE OF
PASSENGER FACILITY CHARGES, INVESTMENT INCOME AND RELATED
EXPENDITURES**

Board of Commissioners
Chattanooga Metropolitan Airport Authority
Chattanooga, Tennessee

We have audited the compliance of Chattanooga Metropolitan Airport Authority (the Authority), a component unit of the City of Chattanooga, Tennessee, with the types of compliance requirements described in the Passenger Facility Charge Audit Guide for Public Agencies issued by the Federal Aviation Administration (the Guide) that could have a direct and material effect for its passenger facility charge program for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations pertaining to the passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on the Authority's compliance based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the passenger facility charge program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Passenger Facility Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that

could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the passenger facility charge program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

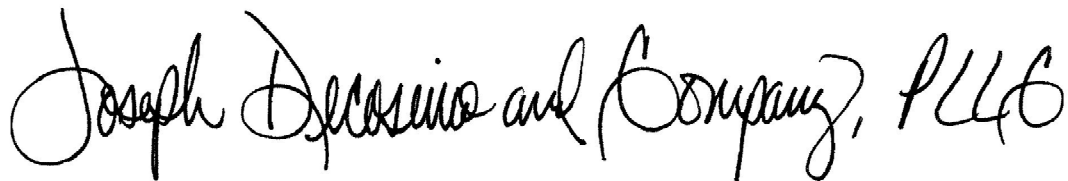
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Schedule of Passenger Facility Charges, Investment Income and Related Expenditures

We have audited the financial statements of the Authority as of and for the year ended June 30, 2013, and have issued our report thereon dated October 22, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of passenger facility charges, investment income and related expenditures is presented for purposes of additional analysis as required by the Guide and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of passenger facility charges, investment income and related expenditures is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Joseph Decasino and Company, PLLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee
October 22, 2013

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

SCHEDULE OF PASSENGER FACILITY CHARGES, INVESTMENT INCOME AND RELATED EXPENDITURES

Year Ended June 30, 2013

	First Quarter (2)	Second Quarter	Third Quarter	Fourth Quarter (1)	Total
Passenger facility charges	\$ 351,423	\$ 307,662	\$ 248,894	\$ 310,114	\$ 1,218,093
Investment income	\$ 3,975	\$ 3,936	\$ 4,058	\$ 4,051	\$ 16,020
Expenditures	\$ 90,551	\$ -	\$ -	\$ 1,858,947	\$ 1,949,498

(1) Does not include amounts of \$157,206 accrued as of June 30, 2013, not received until subsequent to June 30, 2013.

(2) Includes amounts of \$190,392 received in July 2012, but accrued as of June 30, 2012.

Basis of Presentation - The schedule of passenger facility charges, investment income and related expenditures includes grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - PASSENGER FACILITY CHARGE PROGRAM

Year Ended June 30, 2013

I) Summary of Auditor's Results

- a) An unmodified report was issued on the June 30, 2013, financial statements of Chattanooga Metropolitan Airport Authority.
- b) No noncompliance which is material to the financial statements was disclosed by the audit.
- c) An unmodified opinion was issued on compliance for the passenger facility charge program.

II) There were no findings related to the financial statements which are required to be reported in accordance with *Governmental Auditing Standards*.

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

SCHEDULE OF ACTUAL TO BUDGET COMPARISON

Year Ended June 30, 2013

(unaudited)

	2013 Actual	2013 Budget	Variance	% Variance Favorable (Unfavorable)
AIRLINE REVENUES				
Landing fees	\$ 892,347	\$ 860,581	\$ 31,766	4 %
Terminal rental fees	533,255	533,060	195	- %
Baggage fees	343,279	343,262	17	- %
Loading bridge fees	70,833	70,834	(1)	- %
Security and janitorial	337,876	337,877	(1)	- %
Ground handling fees	<u>63,338</u>	<u>57,063</u>	<u>6,275</u>	<u>11 %</u>
	<u>2,240,928</u>	<u>2,202,677</u>	<u>38,251</u>	<u>2 %</u>
NONAIRLINE REVENUES				
Hangar rental	571,350	570,595	755	- %
Fuel sales	294,582	296,274	(1,692)	(1)%
Parking	2,855,794	2,813,040	42,754	2 %
Rental car	1,407,770	1,512,350	(104,580)	(7)%
Diversions, charters and GSE	55,441	-	55,441	- %
Advertising	121,650	139,908	(18,258)	(13)%
TSA reimbursements	208,406	213,518	(5,112)	(2)%
Tenant rent	80,341	83,942	(3,601)	(4)%
Airfield revenues	27,744	34,169	(6,425)	(19)%
Solar revenues	96,133	100,000	(3,867)	(4)%
Other terminal revenues	189,077	156,492	32,585	21 %
Gain on disposal of property and equipment	247	-	(247)	- %
Other	26,071	225,246	(199,175)	(88)%
Fixed base operations	<u>1,939,504</u>	<u>1,996,715</u>	<u>(57,211)</u>	<u>(3)%</u>
	<u>7,874,110</u>	<u>8,142,249</u>	<u>(268,139)</u>	<u>(3)%</u>
Total operating revenues	<u>10,115,038</u>	<u>10,344,926</u>	<u>(229,888)</u>	<u>(2)%</u>
OPERATING EXPENSES				
Personnel services	3,053,993	3,179,151	125,158	4 %
Contractual services	188,315	338,943	150,628	44 %
Utilities and telephone	426,794	464,960	38,166	8 %
Insurance	292,799	286,854	(5,945)	(2)%
Repairs and maintenance	455,012	376,438	(78,574)	(21)%
Office and administrative	20,386	33,950	13,564	40 %
Promotion	291,977	428,865	136,888	32 %
Miscellaneous	109,265	318,720	209,455	66 %
Fuel	43,671	38,750	(4,921)	(13)%
Rental property expense	46,759	4,000	(42,759)	(1,069)%
Bad debt expense	15,114	25,000	9,886	40 %
Amortization	2,956	-	(2,956)	- %

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

SCHEDULE OF ACTUAL TO BUDGET COMPARISON

Year Ended June 30, 2013

(unaudited)

	2013 Actual	2013 Budget	Variance	% Variance Favorable (Unfavorable)
OPERATING EXPENSES - continued				
Ground handling	\$ 108,186	\$ 93,900	\$ (14,286)	(15)%
Parking - management fees	32,409	31,930	(479)	(2)%
Parking - expenses	217,062	236,000	18,938	8 %
Fixed base operations	<u>2,446,199</u>	<u>2,447,825</u>	<u>1,626</u>	<u>-</u> %
Total operating expenses	<u>7,750,897</u>	<u>8,305,286</u>	<u>554,389</u>	<u>7</u> %
OPERATING INCOME BEFORE DEPRECIATION	2,364,141	2,039,640	324,501	16 %
Depreciation	<u>(5,096,727)</u>	<u>(4,122,899)</u>	<u>(973,828)</u>	<u>(24)%</u>
OPERATING LOSS	<u>(2,732,586)</u>	<u>(2,083,259)</u>	<u>649,327</u>	<u>(31)%</u>
NONOPERATING REVENUE (EXPENSE)				
Interest income	66,576	6,839	59,737	873 %
Interest expense	<u>(202,459)</u>	<u>(309,234)</u>	<u>106,775</u>	<u>(35)%</u>
	<u>(135,883)</u>	<u>(302,395)</u>	<u>166,512</u>	<u>55</u> %
LOSS BEFORE OTHER REVENUES	<u>(2,868,469)</u>	<u>(2,385,654)</u>	<u>482,815</u>	<u>(20)%</u>
OTHER REVENUES				
Capital grants	9,508,125	6,855,154	2,652,971	39 %
Revenue from passenger facility charges	1,200,927	1,185,300	15,627	1 %
Revenue from customer facility charges	<u>510,828</u>	<u>504,000</u>	<u>6,828</u>	<u>1</u> %
	<u>11,219,880</u>	<u>8,544,454</u>	<u>2,675,426</u>	<u>31</u> %
INCREASE IN NET POSITION	<u>\$ 8,351,411</u>	<u>\$ 6,158,800</u>	<u>\$ 2,192,611</u>	<u>36</u> %

INTERNAL CONTROL AND COMPLIANCE REPORTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Chattanooga Metropolitan Airport Authority
Chattanooga, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Chattanooga Metropolitan Airport Authority (the Authority), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

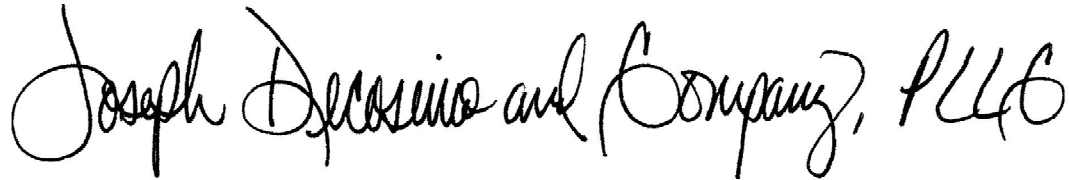
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Joseph DeCascio and Company, PLLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee
October 22, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners
Chattanooga Metropolitan Airport Authority
Chattanooga, Tennessee

We have audited the Chattanooga Metropolitan Airport Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2013. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

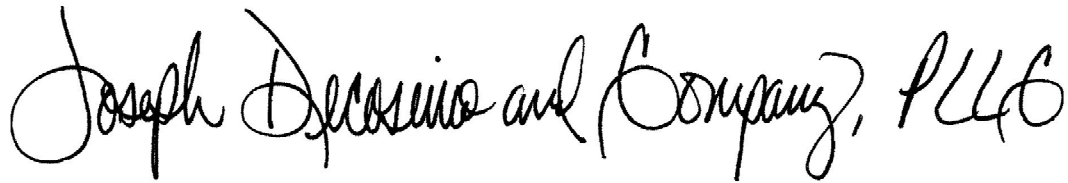
Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Joseph DeCaro and Company, PLLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee
October 22, 2013

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?

☐ Yes ☒ None Reported

- Significant deficiency identified that is not considered to be a material weakness?

☐ Yes ☒ None Reported

Noncompliance material to financial statements noted?

☐ Yes ☒ None Reported

Federal Awards

Internal control over major programs:

- Material weaknesses identified?

☐ Yes ☒ None Reported

- Significant deficiencies identified that are not considered to be material weaknesses?

☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major programs:

Unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☐ Yes ☒ None Reported

Identification of major programs:

CFDA Number

20.106

Name of Federal Program or Cluster

Airport Improvement Project

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

II. FINANCIAL STATEMENT FINDINGS

None reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported.